

**AMERICAN MONTESSORI ACADEMY**  
**Report on Financial Statements**  
**(With required supplementary information)**

**Year Ended June 30, 2007**

**American Montessorri Academy  
Financial Report  
For the Fiscal Year Ended  
June 30, 2007**

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## **Independent Auditors' Report**

Board of Directors  
American Montessori Academy  
14800 Middlebelt Road  
Livonia, MI 48154

We have audited the accompanying financial statements of the governmental activities and each major fund of the American Montessori Academy as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the American Montessori Academy as of June 30, 2007 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2007, on our consideration of American Montessori Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting

report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through xii and 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

DARNELL & MEYERING, P.C.

A handwritten signature in black ink that reads "Darnell & Meyering, PC." The signature is written in a cursive, flowing style. The "D" is large and loops around the "arnell". The "&" is small and connects "arnell" to "Meyering". The "Meyering" is also cursive, and "PC." is written at the end.

September 27, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of American Montessori Academy's (academy) annual financial report presents our discussion and analysis of the public school academy's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

### Financial Highlights

- The academy's net assets are \$120,334.
- Blended enrollment used for state aid purposes was 272.70 in June 2007.

### Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the academy.

The first two statements are academy-wide financial statements that provide both short-term and long-term information about the academy's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the academy, reporting the academy's operations in more detail than the academy-wide statements.

The governmental funds statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.

Fiduciary funds statements provide information about the financial relationships in which the academy acts solely as an agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

**Figure A-1 Organization of American Montessori Academy Annual Financial Report**

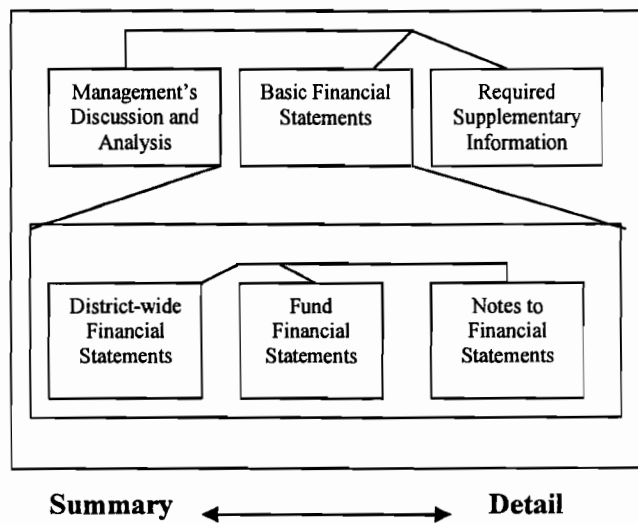


Figure A-2 summarized the major features of the academy's financial statements, including the portion of the academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**Figure A – 2 Major Features of the Academy-Wide and Fund Financial Statements**

	Academy-wide statements	Fund Financial Statements	
		Governmental funds	Fiduciary funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary	Instances in which the academy administers resources on behalf of someone else, such as student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the academy's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

## **Academy-wide statements**

The Academy-wide statements report information about the academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the academy's net assets and how they have changed. Net assets – the difference between the academy's assets and liabilities, are one way to measure the academy's financial health or position.

- Over time, increases or decreases in the academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the academy, you need to consider additional non-financial factors such as changes in the academy's enrollment, the condition of school buildings and other facilities, and the academy's ability to be competitive with other public school academies and area school districts.

## **Fund financial statements**

The fund financial statements provide more detailed information about the academy's funds, focusing on its more significant or "major" funds – not the academy as a whole. Funds are accounting devices the academy uses to keep track of specific sources of funding and spending on particular programs:

**Governmental activities** – The academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The academy has two kinds of funds:

**Governmental fund** – Most of the academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the academy's programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

**Fiduciary funds** – The academy is the fiduciary for assets that belong to others, such as the student activities funds. The academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and used by those to whom the assets belong. We exclude these activities from the academy-wide financial statements because the academy cannot use these assets to finance its operations.

## Financial analysis of the academy as a whole

Net assets - the academy's combined net assets were \$120,334 on June 30, 2007. See Figure A – 3.

The total revenues were \$2,418,861. State aid foundation allowance included in revenue from state sources accounts for 83 percent of the academy's revenue.

The total cost of instruction was \$952,533. The total cost of support services were \$1,260,376.

The academy's stable financial position is the product of many factors. The primary reasons are the number of students enrolled and the management of expenses to bring them into line with the academy's revenue.

## Academy governmental activities

There was a state aid increase of \$210 per pupil during the 2006-2007 school year. The school board oversaw the academy's financial activities while the administration carefully managed expenses.

<b>Figure A-3</b>		
<b>American Montessori Academy</b>		
	<b>2007</b>	<b>2006</b>
Current assets	\$ 439,204	\$ 878,138
Capital assets	252,785	233,345
Total assets	691,989	1,111,483
Current liabilities	424,681	836,723
Noncurrent liabilities	146,974	214,291
Total liabilities	571,655	1,051,014
Net assets		
Invested in capital assets, net of related debt	188,376	152,642
Unrestricted	(68,042)	(92,173)
Total net assets	\$ 120,334	\$ 60,469

<b>Figure A-4</b>		
<b>Changes in American Montessori Academy's Net Assets</b>		
	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 317,687	\$ 156,444
General revenues:		
State aid - unrestricted	2,013,355	1,347,462
Investment	10,622	8,230
Charges for services	57,635	33,613
Other	19,562	24,079
Total revenues	<u>2,418,861</u>	<u>1,569,828</u>
Expenses:		
Instruction	952,533	504,843
Support services	1,260,376	842,613
Community services	24,139	12,438
Interest	76,972	70,505
Unallocated depreciation	44,976	44,976
Total expenses	<u>2,358,996</u>	<u>1,475,375</u>
Change in net assets	<u>\$ 59,865</u>	<u>\$ 94,453</u>

### **Financial analysis of the academy's funds**

The stable financial performance of the academy as a whole is reflected in its governmental fund. As the academy completed the year, its governmental funds (general) reported a fund balance of \$83,523.

### **General fund budgetary highlights**

Over the course of the year, the academy revised the annual operating budget two times. These budget amendments fall into several categories:

Changes were made in the second and fourth quarters to account for student enrollment counts, federal funds, and changes in assumptions (e.g. staffing changes and capital outlay) since the original budget was adopted.

While the academy's final budget for the general fund anticipated expenditures would exceed revenues by \$62,980, the actual results for the year showed expenditures over revenues of \$20,984.

## Capital asset and debt administration

### Capital assets

By the end of the year ended June 30, 2007, the academy had invested \$252,785 in capital assets consisting primarily of computers, software, furniture and fixtures net of accumulated depreciation. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$56,398.

The Academy's capital assets are as follows:

<b>Figure A-5</b>				
<b>American Montessori Academy's Capital Assets</b>				
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>2007 Net Book Value</b>	<b>2006 Net Book Value</b>
Computer equipment	\$ 53,020	\$ 30,045	\$ 22,975	\$ 33,579
Furniture and fixtures	319,419	105,986	213,433	180,318
Building improvements	21,495	5,118	16,377	19,448
Total	<u>\$ 393,934</u>	<u>\$ 141,149</u>	<u>\$ 252,785</u>	<u>\$ 233,345</u>

### Facilities lease obligation

The academy paid \$400,000 for facilities lease obligations during the 2007 school year.

### Long-term debt

At year end the Academy had \$214,291 in installment obligations. (More detailed information about the Academy's long-term liabilities is presented in Note 6 to the Financial Statements).

<b>Figure A-6</b>		
<b>American Montessori Academy's Outstanding Long-term Debt</b>		
	<b>2007</b>	<b>2006</b>
Installment Loans	\$ 214,291	\$ 275,228
Total	<u>\$ 214,291</u>	<u>\$ 275,228</u>

**Factors bearing on the academy's future**

At the time these financial statements were prepared and audited, the academy was not aware of existing circumstances that could significantly affect its financial health in the future.

**Contacting the academy's financial management**

This financial report is designed to provide our students, parents and creditors with a general overview of the academy's finances and to demonstrate the academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the academy's office at 14800 Middlebelt Road, Livonia, MI 48154.

**American Montessori Academy**  
**Statement of Net Assets**  
**June 30, 2007**

<b>Assets</b>	<u>Governmental Activities</u>
<b>Current assets:</b>	
Cash and equivalents	\$ 3,088
Receivables:	
Other governmental units	429,091
Deposits	3,600
Prepaid expenses	3,425
<b>Total current assets</b>	<u>439,204</u>
<b>Noncurrent assets:</b>	
Capital assets	393,934
Less accumulated depreciation	(141,149)
<b>Total noncurrent assets</b>	<u>252,785</u>
<b>Total assets</b>	<u><u>\$ 691,989</u></u>
<b>Liabilities And Net Assets</b>	
<b>Current liabilities:</b>	
Accounts payable	\$ 5,577
Accrued oversight fees	11,095
Accrued interest	1,683
Due to student activities	11,736
Revenue anticipation note	327,273
Current portion of long term obligations	67,317
<b>Total current liabilities</b>	<u>424,681</u>
<b>Noncurrent liabilities:</b>	
Noncurrent portion of long term obligations	146,974
<b>Total noncurrent liabilities</b>	<u>146,974</u>
<b>Total liabilities</b>	<u>571,655</u>
<b>Net assets:</b>	
Invested in capital assets - net of related debt	188,376
Unrestricted	(68,042)
<b>Total net assets</b>	<u>120,334</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 691,989</u></u>

See notes to financial statements.

**American Montessori Academy**  
**Statement of Activities**  
**Year Ended June 30, 2007**

Functions/programs	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating Grants & Contributions	
Governmental activities:				
Instruction	\$ 952,533	\$ -	\$ 317,687	\$ (634,846)
Support services	1,260,376	-	-	(1,260,376)
Community services	24,139	57,635	-	33,496
Interest expense	76,972	-	-	(76,972)
Unallocated depreciation	44,976	-	-	(44,976)
Total governmental activities	\$ 2,358,996	\$ 57,635	\$ 317,687	(1,983,674)
General revenues:				
State of Michigan school aid unrestricted				2,013,355
Investment revenue				10,622
Miscellaneous				19,562
Total general revenues				2,043,539
Change in net assets				59,865
Net assets, beginning of year				60,469
Net assets, end of year				\$ 120,334

See notes to financial statements.

American Montessori Academy  
Balance Sheet  
Governmental Fund  
June 30, 2007

	General Fund
<b>Assets</b>	
<b>Assets:</b>	
Cash and equivalents	\$ 3,088
Receivables:	
Other governmental units	429,091
Deposits	3,600
Prepaid expenditures	3,425
<b>Total assets</b>	<u><u>\$ 439,204</u></u>
<b>Liabilities and Fund Balances</b>	
<b>Liabilities:</b>	
Accounts payable	\$ 5,577
Accrued oversight fees	11,095
Due to student activities	11,736
Revenue anticipation note	327,273
<b>Total liabilities</b>	<u><u>355,681</u></u>
<b>Fund balance:</b>	
Reserved for prepaid expenditures	3,425
Reserved for deposits	3,600
Unreserved, undesignated	76,498
<b>Total fund balance</b>	<u><u>83,523</u></u>
<b>Total liabilities and fund balance</b>	<u><u>\$ 439,204</u></u>

**Total governmental fund balance**

\$ 83,523

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are financial resources and are not reported in the funds

The cost of capital assets is

\$ 393,934

Accumulated depreciation is

(141,149)

252,785

Long term liabilities are not due and payable in the current period and are not reported in the funds

Long term obligations

(214,291)

Accrued interest payable is not included as a liability in governmental funds

(1,683)

**Net assets of governmental activities**

\$ 120,334

See notes to financial statements.

**American Montessori Academy**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Fund**  
**Year Ended June 30, 2007**

<b>Revenues:</b>		General Fund
Local sources	\$ 92,022	
State sources	2,023,399	
Federal sources	303,440	
		<hr/>
Total revenues		2,418,861
<b>Expenditures:</b>		
Current:		
Instruction:		
Basic programs	922,612	
Added needs	72,622	
		<hr/>
Total instruction		995,234
Support services:		
Pupil	72,211	
Instructional staff	49,030	
General administration	349,890	
School administration	219,764	
Business	139,369	
Operations/maintenance	524,401	
Central	4,870	
		<hr/>
Total support services		1,359,535

**American Montessori Academy**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Fund**  
**Year Ended June 30, 2007**

<b>Expenditures (concluded):</b>	<b>General</b>
Current (concluded):	<b>Fund</b>
Community service	24,139
Debt service:	
Principal retirements	<u>60,937</u>
Total expenditures	<u>2,439,845</u>
<b>Net change in fund balance</b>	(20,984)
<b>Fund balance:</b>	
Beginning of year	104,507
End of year	<u>\$ 83,523</u>

See notes to financial statements.

American Montessori Academy  
Reconciliation of the Statement of Revenues,  
Expenditures and Changes in Fund Balance of Governmental Fund  
to the Statement of Activities  
Year Ended June 30, 2007

**Net change in fund balance total governmental funds** **\$ (20,984)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

In the statement of activities, these costs are allocated over their estimated useful lives as depreciation

Capital outlay

Depreciation expense

75,838  
(56,398)

Repayments of principal on long-term debt is an expenditure in the governmental funds,  
but not in the statement of activities (where it is a reduction of liabilities).

60,937

Accrued interest is recorded in the statement of activities when incurred; it is not  
recorded in the governmental funds until it is paid.

Accrued interest payable beginning of the year

Accrued interest payable end of the year

2,155  
(1,683)

**Change in net assets of governmental activities**

\$ 59,865

**American Montessori Academy  
Statement of Fiduciary Net Assets  
June 30, 2007**

	Agency Fund Student <u>Activities</u>
<b>Assets:</b>	
Due from General Fund	\$ 11,736
<b>Total assets</b>	<u>\$ 11,736</u>
<b>Liabilities:</b>	
Due to Student Groups	\$ 11,736
<b>Total liabilities</b>	<u>\$ 11,736</u>

See notes to financial statements.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007

**Note 1. Summary of Significant Accounting Policies**

The accounting policies of American Montessori Academy conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy.

**A. Reporting Entity**

American Montessori Academy is a public school academy. A public school academy is a Michigan Public School System under Public Act No. 362 of 1993 and is subject to the leadership and general supervision of the State Board of Education. Bay Mills Community College is the authorizing body of the Academy and has contracted with the Academy confirming the status of the public school academy. American Montessori Academy's school board is approved by the authorizing body and is authorized to manage the property and affairs of the Academy. The Academy does not include any component unit within its financial statements as defined in Governmental Accounting Standards Board Statements Nos. 14 and 39.

**B. Charter-Wide and Fund Financial Statements**

**Measurement focus, basis of accounting, and financial statement presentation**

**CHARTER-WIDE STATEMENTS**

The charter-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The charter-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school Academy and other unrestricted items are not included as program revenues but instead as *general revenues*.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

In the charter-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. At June 30, 2007, the Academy had no restricted net assets.

The Academy first utilizes restricted resources to finance qualifying activities.

The charter-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues).

The Academy does not allocate indirect costs.

This charter-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The charter-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the charter-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

**FUND BASED STATEMENTS**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major fund:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

*Fiduciary funds* account for assets held by the Academy as an agent on behalf of others. Fiduciary funds are not included in the charter-wide statements. The Academy has one fiduciary fund called an agency fund which primarily accounts for student activities.

**D. Assets, Liabilities and Net Assets or Equity**

**1. Deposits and Investments**

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosure*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy had no investments at June 30<sup>th</sup>.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. Banks, and mutual funds composed of investments as outlined above.

## 2. Receivables

The State of Michigan utilizes a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to charter schools based on information supplied by the schools. For the year June 30, 2007 the foundation allowance was based on the pupil membership counts taken in September of 2006 and February of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October, 2006 to August, 2007. Thus, the unpaid portion at June 30 is reported as state aid receivable.

The Academy also receives revenue from the State to administer certain categorical education programs. State rules required that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the charter-wide and fund financial statements.

4. Fund Equity Balance

The unreserved fund equity balances for governmental funds represent the amount available for budgeting future operations. The reserved fund equity balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources". The designated fund equity balances for governmental funds represent tentative plans for future use of financial resources.

5. Capital Assets

Capital assets, include property, plant, and equipment are reported in the applicable governmental activities column in the charter-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure type assets.

Depreciation on all assets is provided using the straight-line method over the following useful lives:

Computers	5 years
Furniture and equipment	7-10 years
Building and improvement	7 years

6. Use of Estimates

The process of preparing general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**AMERICAN MONTESSORI ACADEMY**  
**Notes to the Financial Statements**  
**June 30, 2007**  
**(Continued)**

**Note 2. Stewardship, Compliance and Accountability**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for capital outlay which is reported in the function or activity it services. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at fiscal year end.

The Academy maintains a formalized encumbrance accounting system.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. The Management Organization submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances – budget and actual – general fund.
- B. Public hearings are conducted to obtain local public comments.
- C. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances in the budgetary comparison schedule – general fund.
- D. The management company is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- E. Formal budgetary integration is employed as a management control device during the year for the general fund.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

F. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30<sup>th</sup>.

G. The Academy did not have significant expenditure budget variances.

**Note 3. Deposits**

Cash is held in the name of the school in the general fund. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the school in relation to deposits in excess of insured amounts. These assessments are performed by the Academy at least annually. As of June 30, 2007, the Academy's bank balance of \$4,883 was not exposed to custodial credit risk because it was covered by federal depository insurance.

**Note 4. Receivables**

Receivables as of year-end were as follows:

	General <u>Fund</u>
Receivables:	
State aid	\$ 369,837
Federal	<u>59,254</u>
Net total receivables	<u><u>\$ 429,091</u></u>

All receivables were deemed collectible as of June 30, 2007.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

**Note 5. Capital Assets**

Capital asset activity for the Academy for the current fiscal year was as follows:

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2007</u>
Capital assets being depreciated:				
Computers	\$ 53,020	\$ -	\$ -	\$ 53,020
Furniture & Equipment	243,581	75,838	-	319,419
Building Improvements	<u>21,495</u>	<u>-</u>	<u>-</u>	<u>21,495</u>
Subtotal	<u>318,096</u>	<u>75,838</u>	<u>-</u>	<u>393,934</u>
Less: Accumulated depreciation for:				
Computers	19,441	10,604	-	30,045
Furniture & Equipment	63,263	42,723	-	105,986
Building Improvements	<u>2,047</u>	<u>3,071</u>	<u>-</u>	<u>5,118</u>
Subtotal	<u>84,751</u>	<u>56,398</u>	<u>-</u>	<u>141,149</u>
Capital assets, net of depreciation	<u><u>\$ 233,345</u></u>	<u><u>\$ 19,440</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 252,785</u></u>

Depreciation for the fiscal year ended June 30, 2007 amounted to \$56,398. Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:

Instruction	\$ 5,426
Support	5,996
Unallocated	<u>44,976</u>
Total	<u><u>\$ 56,398</u></u>

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

**Note 6. Long-Term Debt**

The following is a summary of long-term obligations of the Academy for the year ended June 30, 2007:

<u>Capital Leases</u>	Balance 7/1/2006	Additions	Reductions	Balance 6/30/2007	Due Within One Year
David McHugh	\$ 125,660	\$ -	\$ 26,889	\$ 98,771	\$ 29,705
T. Papatheodoropoulos	37,000	-	11,128	25,872	12,293
Daniel Webster	69,272	-	14,104	55,168	15,581
Ronald Baker	43,296	-	8,816	34,480	9,738
Total	<u>\$ 275,228</u>	<u>\$ -</u>	<u>\$ 60,937</u>	<u>\$ 214,291</u>	<u>\$ 67,317</u>

Annual debt service requirements to maturity for the above long-term obligations are as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 67,317	\$ 18,400	\$ 85,717
2009	74,366	11,350	85,716
2010	67,152	4,238	71,390
2011	<u>5,456</u>	<u>68</u>	<u>5,524</u>
Total	<u>\$ 214,291</u>	<u>\$ 34,056</u>	<u>\$ 248,347</u>

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

**Governmental Activities:**

Long-term obligations currently outstanding are as follows:

Installment loan due in monthly installments of \$3,187 beginning July 1, 2005, through June 1, 2010. The interest rate is 10% per annum.	\$98,771
Installment loan due in monthly installments of \$1,194 beginning July 1, 2006, through June 1, 2009. The interest rate is 10% per annum.	25,872
Installment loan due in monthly installments of \$1,700 beginning September 1, 2005, through August 1, 2010. The interest rate is 10% per annum.	55,168
Installment loan due in monthly installments of \$1,062 beginning September 1, 2005, through August 1, 2010. The interest rate is 10% per annum.	<u>34,480</u>
	<u>\$214,291</u>

**Note 7. Operating Lease Agreement**

The Academy leases classroom facilities under a non-cancelable operating lease agreement. Lease expense for year ended June 30, 2007 was \$400,000. The term of the lease is eight years beginning July 1, 2004 through June 30, 2012. The lease covers property located at 14800 Middlebelt Road, Livonia, Michigan. The lease agreement contains a purchase option effective April 1, 2008 through March 31, 2012. This purchase option allows the Academy to obtain the real estate for the market value on the option date. The Basic Rent shall increase annually by the lesser of: 2% of the Basic Rent from the preceding year or the percentage increase in the State School Aid basic foundation allowance as provided by the State of Michigan from the previous school fiscal year.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
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(Continued)

The future minimum rental payments for the balance of the lease are as follows:  
(Computed assuming the increase in rent is 2% over the prior school fiscal year)

School Fiscal Year Ending	Annual Rent
2008	\$ 408,000
2009	416,160
2010	424,483
2011	432,973
2012	441,632
	<u>\$ 2,123,248</u>

**Note 8. Revenue Anticipation Note**

The Academy had an outstanding revenue anticipated note of \$500,000 with an interest rate of 7.851% to assist with operational cash flows prior to the receipt of state aid payments. The note is secured by funding provided from the State of Michigan's foundation grant revenue. The balance at June 30, 2007 was \$327,273 with a maturity date of August 31, 2007. The following is a summary of revenue anticipation notes of the Academy for the year ended June 30, 2007:

	Balance 7/1/2006	Additions	Reductions	Balance 6/30/2007
2005-2006	\$ 141,909	\$ -	\$ 141,909	\$ -
2006-2007	595,227	-	595,227	-
2007-2008	<u>-</u>	<u>500,000</u>	<u>172,727</u>	<u>327,273</u>
Total	<u>\$ 737,136</u>	<u>\$ 500,000</u>	<u>\$ 909,863</u>	<u>\$ 327,273</u>

**Note 9. Purchased Services**

The Academy leases all employee services from MJ Management Services, Inc. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of this management company.

AMERICAN MONTESSORI ACADEMY  
Notes to the Financial Statements  
June 30, 2007  
(Continued)

**Note 10. Management Company**

Helicon Associates, Inc. provides management services under a Consultancy Services Agreement that commenced on July 1, 2004 and shall expire on June 30, 2007. The management company's fee is 11% of state aid which the Academy receives. All subsequent years are based on increases of the average costs of living rate in the Detroit, Michigan area. During the year ended June 30, 2007, the Academy incurred expense of \$221,455 for management services.

**Note 11. Oversight Fees**

The Academy pays an administrative oversight fee of 3% of its state school aid and proposal A obligation payments to the Bay Mills Community College, as set forth by contract, to reimburse the University for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2007, the Academy incurred expense of approximately \$60,702 for oversight fees.

**Note 12. Risk Management**

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Academy continues to carry commercial insurance for other risks of loss.

## REQUIRED SUPPLEMENTARY INFORMATION

**American Montessori Academy**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with final budget Favorable (Unfavorable)</u>
<b>Revenues:</b>				
Local sources	\$ 60,000	\$ 91,536	\$ 92,022	\$ 486
State sources	2,040,386	2,023,401	2,023,399	(2)
Federal sources	266,127	303,374	303,440	66
<b>Total revenues</b>	<b>2,366,513</b>	<b>2,418,311</b>	<b>2,418,861</b>	<b>550</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Instruction:				
Basic programs	908,558	935,119	922,612	12,507
Added needs	54,764	74,055	72,622	1,433
<b>Total instruction</b>	<b>963,322</b>	<b>1,009,174</b>	<b>995,234</b>	<b>13,940</b>
<b>Support services:</b>				
Pupil	70,000	75,500	72,211	3,289
Instructional staff	54,828	50,921	49,030	1,891
General administration	315,414	357,657	349,890	7,767
School administration	207,972	222,890	219,764	3,126
Business	109,875	141,630	139,369	2,261
Operations/maintenance	501,250	531,725	524,401	7,324
Central	7,000	6,000	4,870	1,130
<b>Total support services</b>	<b>1,266,339</b>	<b>1,386,323</b>	<b>1,359,535</b>	<b>26,788</b>

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with final budget Favorable (Unfavorable)
<b>Expenditures (concluded):</b>				
Community service	24,596	24,857	24,139	718
Debt Service:				
Principal Retirements	61,057	60,937	60,937	-
Total expenditures	<u>2,315,314</u>	<u>2,481,291</u>	<u>2,439,845</u>	<u>41,446</u>
<b>Net change in fund balance</b>	51,199	(62,980)	(20,984)	41,996
<b>Fund balance:</b>				
Beginning of year	104,507	104,507	104,507	-
End of year	<u>\$ 155,706</u>	<u>\$ 41,527</u>	<u>\$ 83,523</u>	<u>\$ 41,996</u>

# DARNELL & MEYERING, P.C.

*Certified Public Accountants*

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MEMBERS  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

Board of Directors  
American Montessori Academy  
14800 Middlebelt Road  
Livonia, Michigan 48154

We have audited the financial statements of American Montessori Academy, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered American Montessori Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the American Montessori Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control

deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

2007 – 1 Finding:

The Academy has hired a management company to provide bookkeeping and accounting services which includes cash disbursements and the maintaining and reconciling of all bank accounts. In our assessment of internal controls, we found there was not adequate segregation of duties in the accounts payable process among the two persons involved. There is no independent verification and approval of the source documents to support expenditures charged to the Academy

Response:

The Academy has retained a new management company for the 2007/2008 school year and will now be under new internal control procedures.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether American Montessori Academy's statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These

certain matters are reported to management of American Montessori Academy in a separate letter dated September 27, 2007.

This report is intended solely for the information and use of management, others within the Academy, the Michigan Department of Education, Michigan Department of Treasury and ISD and is not intended to be and should not be used by anyone other than these specified parties.

DARNELL & MEYERING, P.C.

A handwritten signature in black ink that reads "Darnell & Meyering, PC". The signature is written in a cursive, flowing style.

September 27, 2007